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496.

CRITICAL SITUATIONS

EUROPEAN RECOVERY

On the assumption that aid from the European recovery program will not be forthcoming until April, the French have asked the US for \$150 million in aid within the next two weeks.

TRIESTE

No significant new development.

GREECE

No significant new development.

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INDONESIA

No significant new development.

CHINA

Current reports that the Chinese Communists have been undertaking a general withdrawal from the Shantung peninsula, where Nationalist forces are advancing on the port of Chefoo, indicate that the Communists are continuing their strategy of avoiding open combat under adverse conditions and of preserving their strength for long-term warfare of attrition (see item 4).

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GENERAL

1. USSR to accept 25 November date for CFM--The Soviet Political Adviser in Berlin has told Ambassador Murphy that the USSR is agreeable to the 25 November date for the London meeting of the CFM and to the 6 November date for the meeting of the deputies. (The US, the UK, and France have already indicated their acceptance of these dates.)
2. Danish Navy alerted to resist Soviet attack--US Minister Marvel in Copenhagen reports that the Danish Navy was alerted on 27 September to resist any Soviet attempt to land on Bornholm. He stated that this alert was based on increased Soviet naval activities in the Koenigsberg (Kaliningrad) area.

(CIA Comment: If the Soviet Navy is conducting maneuvers in the Koenigsberg area, they are probably without political or military implication as far as Denmark is concerned. CIA considers a Soviet attack on Bornholm too remote to merit consideration.)

3. Proposed US offer to USSR on German assets in Austria--The Department of State has informed US Legation Vienna that the US is prepared to offer the USSR, subject to UK and French approval, a definite ownership percentage in those major enterprises in Austria which, in the tripartite view, are indisputably German. The Department notes that any offer to the USSR must be realistic in terms of current Soviet policy. The Department would make the offer after the termination of the Allied Treaty Commission but before the opening of the CFM, in an attempt to dispose of the German assets problem in Austria and to pave the way for an Austrian peace treaty and for withdrawal of all occupation forces.

(CIA Comment: The USSR will probably turn down this offer unless the Kremlin believes that: (a) the USSR can eventually force Austria into the Soviet orbit regardless of a treaty; and (b) it is strategically important to eliminate Western occupation in this part of Europe.)

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FAR EAST

4. CHINA: Possible Communist withdrawal from the Shantung peninsula-- Commander US Naval Forces Western Pacific comments that the absence of Chinese Communist resistance to the present Nationalist drive toward the northeast Shantung port of Chefoo may confirm reports that the Communists have been undertaking a general withdrawal from the Shantung peninsula to the western part of Shantung Province.

(CIA Comment: Chefoo is the port through which the Communists have reportedly effected water-borne communications with southern Manchuria. Since the Communists are capable of using other coastal points to maintain such communications and of withdrawing from the peninsula without substantial losses, CIA doubts that the loss of Chefoo will materially weaken the Communist potential in north China.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Premier Ramadier, in making a new appeal for a united Europe, has stated that Germany must cooperate in any effective effort toward economic recovery in Europe, but that Germany's recovery must not take precedence over that of other European nations.

TRIESTE

A Yugoslav refusal to release five members of the Venezia Giulia civil police force appears to be a further effort to create disorder in the Free Territory of Trieste (see item 4).

GREECE

No significant new development.

INDONESIA

No significant new development.

CHINA

The ability of the National Government to retain its hold on South Manchuria is now being tested by intensified Communist military activity (see item 6).

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GENERAL

1. UK disturbed over US-UK split in tariff negotiations--The UK Ambassador has informed Secretary Marshall that: (a) Bevin and his cabinet colleagues are disturbed at the possibility of a breakdown of the US-UK tariff negotiations at Geneva because such a development may spell the end of US-UK cooperation in the ITO and because of the "political repercussions" on US-UK relations and foreign policies; (b) the UK nevertheless cannot accept US demands for the gradual elimination of empire trade preferences because Parliament would reject such a "sacrifice" of UK economic interests; and (c) Bevin hopes that Secretary Marshall will "see his way" to avoid a breakdown and asks that the US give the UK Ambassador the opportunity to present his Government's views on the situation before breaking off negotiations.
2. USSR rejects US protest--Foreign Minister Molotov has informed US Ambassador Smith that the USSR cannot bear responsibility for the article on President Truman in the LITERARY GAZETTE (see Daily Summary of 25 September, item 3) and therefore "cannot accept" Smith's recent protest. Molotov also maintained that the Soviet press strives to present the "true facts of the life of other countries, attaching special significance to the strengthening of friendly relations between peoples."

EUROPE

3. ITALY: De Gasperi's chances increased--Ambassador Dunn reports his opinion that the Nenni-Togliatti no-confidence motion was a "serious tactical error" and that De Gasperi, by profiting adently from every opportunity, "is in a good position parliamentarily." Dunn also states that the extreme leftist group is embarrassed by its failure to gain the unqualified support of the moderate left.

(CIA Comment: CIA concurs with the opinion that De Gasperi's chances of defeating the no-confidence vote are increased. De Gasperi, however, will continue to be faced with political crises until the base of his Government is broadened to include certain moderate leftist elements.)

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4. TRIESTE: Yugoslavs detain members of civil police--General Airey, US-UK commander in Trieste, recommends that strong diplomatic representations be made to the Yugoslav Government in order to obtain the release of five members of the Venezia Giulia civil police force who have been detained by the Yugoslavs since 17 September. General Airey considers that the Yugoslav action is "an insidious and dangerous attempt to undermine the morale of the Venezia Giulia police," and that the detention of these men is being synchronized with renewed Communist press attacks on the civil police.

FAR EAST

5. KOREA: Motives for Soviet proposal of withdrawal--Political Adviser Jacobs expresses his opinion that the recent Soviet proposal for the withdrawal of all occupation forces from Korea in 1948 was made in order to: (a) develop anti-US Korean sentiment by making the US appear to be the power favoring occupation and trusteeship; (b) becloud the issue before the UN and so avoid GA action; and (c) induce Congress and the US public to favor withdrawal.

Jacobs also believes that a US-USSR withdrawal would result in the Soviet domination of Korea because the Communist-dominated North Korean Government would be in a position to capitalize upon political disorders in South Korea.

(CIA Comment: In addition to the motives cited, CIA believes that the proposal is designed to permit the Soviet Delegation to remain in Seoul ostensibly for further discussions but actually for the purpose of perfecting the Communist political organization. Such an organization would be effective in the event of GA action favoring UN-supervised elections for a unified Korean government.)

6. CHINA: New Communist military activity in Manchuria--US Consul General Mukden reports that fighting near Chinhsi, an important junction on the Peiping-Mukden railroad, is on a scale larger than

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any in Manchuria since the "Fifth Offensive" of last May. He believes that the Chihhsien area will be an important theater in future Communist operations and that fighting there will seriously disrupt the Nationalist supply line from China proper to Mukden.

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NEAR EAST-AFRICA

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1. PALESTINE: Arab assistance for uprising in Palestine--According to the US Consul General in Jerusalem, the Transjordan Prime Minister has declared that: (a) at the Sofar meeting of the Political Committee of the Arab League it was felt that in the event of an Arab uprising in Palestine, assistance from the neighboring states is inevitable; and (b) Arab leaders believe that it would be wiser to give official sanction to armed assistance instead of striving to prevent such intervention by the neighboring states.

FAR EAST

2. FRENCH INDOCHINA: French operations believed imminent-- According to US Consul Hanoi, growing evidence of French troop concentrations in the northern Tonkin area leaves "little doubt that the French will launch an offensive from there in the first two weeks of October." The Consul adds that the reports concerning the size of the troop concentrations indicate that the operation will be a major one (see Daily Summary of 26 September, item 4).

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3. KOREA: Soviet proposal for US-USSR evacuation in 1948--US Political Adviser Seoul reports that the Soviet proposal for the early 1948 evacuation of US and USSR troops from Korea was for the expressed purpose of permitting the Koreans to form a government by themselves, "without" the aid and participation of the US and the USSR.

(CIA Comment: This report differs from a UP report of 26 September which quotes the Soviet delegate to the effect that Korean efforts to form a government after Allied withdrawals would be "with" the assistance of the Allies. CIA believes, however, that any Korean efforts to form a government will probably be strongly influenced, either directly or indirectly, by the USSR.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Premier Ramadier has again emphasized to Ambassador Caffery his conviction that France will be out of dollars on 15 October and that unless immediate relief is forthcoming from the US, the future of democracy in France "will be very dim indeed."

TRIESTE

The Department of State has notified the Yugoslav Government that the US can no longer maintain a patient attitude toward such provocative incidents as the recent seizure and detention by the Yugoslavs of US military personnel in the Free Territory of Trieste.

GREECE

Information received by the Greek General Staff indicates that plans are being made in southern Yugoslavia to establish an independent Aegean Macedonia before winter (see item 1).

INDONESIA

No significant new development.

CHINA

No significant new development.

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GENERAL

1. Satellite-supported guerrilla action in Macedonia believed imminent--
According to US Military Attaché Athens, the Greek General Staff (GGS) has received information from Yugoslavia that a combined military-political operation is being prepared in southern Yugoslavia to establish, before winter, an independent Aegean Macedonia with Salonika as capital. The report received by the GGS states that highest-ranking Yugoslav personnel are active in the planning, and that junior officers speak openly of a pending thrust to the Aegean. The MA reports that the guerrillas (materially assisted by Bulgars and/or Yugoslavs) have the capabilities for effecting such a coup and that "the Greeks are naturally apprehensive."

(CIA Comment: CIA believes that action along the lines reported is imminent. Control of Macedonia has long been one of the stated objectives of the Yugoslav-Bulgar effort in Greece. The preparation of some action to achieve this objective is also indicated by reports from the US Military Representative in Sofia and by CIA reports of a revived Satellite-Greek Communist propaganda program designed to prepare Greek Communists for the loss of northern Greece. Although the guerrillas are capable of controlling large areas of northern Greece, their ability to capture Salonika would depend on the extent of overt aid--in personnel and materiel, but not necessarily in army units--that the Satellites would risk supplying.)

EUROPE

2. GERMANY: Von Seydlitz seen in Berlin with Soviet officers--

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General von Seydlitz, member of the former Soviet-sponsored Free Germany Committee (FGC), was seen in a German office in the Soviet Zone about 16 September. He was escorted by two Soviet officers.

(CIA Comment: The presence of Von Seydlitz, together with that of ex-Field Marshal Paulus and Count von Einsiedel--see Daily Summary of 19 September, item 2--all associated with the former Free Germany movement, supports other indications that the USSR is using FGC personnel in attempting to create a nationalist party more acceptable to the German people than the Soviet-controlled Socialist Unity Party.)

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NEAR EAST-AFRICA

3. **IRAN: Possible Soviet courses of action against Iran--US Ambassador Allen suggests that the USSR may follow certain of the following courses, if the Majlis rejects the Soviet oil proposal:** (a) request a concession comparable to that of the British in the south; (b) regard Iran as having joined a "hostile bloc" and open a propaganda campaign against the ruling classes and the Majlis, coupled with economic restrictions and subversive activity; (c) increase infiltrations across the border and cause disturbances in Azerbaijan and throughout Iran; (d) invade Iran; and (e) appeal to the UN against Iran.

Allen considers (c) the most likely course. He believes the Iranian Government will be able to cope with such a situation because (in comparison with Greece) the Government seems to be in firmer control of the people, and the Crown has greater popular support and Army loyalty.

(CIA Comment: CIA also believes that (c) is the most likely course of action but expects that this will be accompanied by an intensification of (b), which is already under way.)

FAR EAST

4. **INDOCHINA: Possible French military campaign--US Consul O'Sullivan in Hanoi reports that French military officers in Indochina are confident that a fall campaign in Tonkin would:** (a) cut Vietnam supply lines; (b) isolate Vietnam through the destruction of its communications facilities; (c) disrupt the Vietnam Government and eliminate its important leaders; and (d) destroy the major portion of the Vietnam army.

O'Sullivan doubts, however, that the French would be immediately able to restore their prewar-regime, but warns that long-range external conditions might later facilitate the reestablishment of a prewar status quo. O'Sullivan believes that in this event Vietnamese hatred for the French would bring about the formation of a violently anti-white bloc oriented toward communism.

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THE AMERICAS

5. CUBA: Dominican revolutionaries--The Chief of the Cuban Air Force has informed the US Military Attaché Havana that the Cuban Army has confiscated all planes and arms belonging to the Dominican revolutionaries, and that the revolutionary personnel has been loaded on three boats now under Cuban Navy escort.

(CIA Comment: These moves against the anti-Trujillo revolutionaries do not indicate a change in President Grau's hostile attitude toward Trujillo. When the Dominican revolutionary leaders finally realized they could not overthrow Trujillo, they apparently precipitated Cuban Government intervention in order to shift responsibility for the failure of the movement. When convinced that the movement would fail, the Grau Government had to choose between suppressing it and running the risk that the revolutionaries' arms would fall into the hands of Cuban malcontents.)

6. ARGENTINA: US and UK grain negotiations--The UK Ambassador to Argentina has told US Ambassador Bruce that his Government is alarmed over the effect on Britain's food supply that would result from Argentine cancellation of outstanding grain commitments to the UK. (The suspension of sterling convertibility, reducing the amount of dollars available to Argentina, is presumably Argentina's justification for this contemplated action; see Daily Summary of 25 September, item 4.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Because of failure to obtain a promise of immediate financial aid from the US, the French Cabinet has undertaken to reorganize the budget and to institute administration reforms in an effort to stave off bankruptcy.

TRIESTE

As part of a campaign to undermine the economic independence of the Free Territory of Trieste, the Yugoslav Government has instituted a substantial reconstruction program in the territory recently acquired from Italy (see item 2).

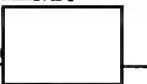
GREECE

No significant new development.

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INDONESIA

No significant new development.

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CHINA

No significant new development.

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GENERAL

1. Possible change in UK attitude toward Japanese peace conference--
US Ambassador Douglas has advised the Department of State that the British Foreign Office has informally expressed doubt that the UK will participate in a Japanese peace conference from which China as well as the USSR is absent. Douglas adds that the UK Ambassador in Nanking has been told by the Chinese Foreign Office that although China has favored an eleven-power conference on the Japanese peace treaty, the probable absence of the USSR may alter the Chinese position.

(CIA Comment: The Chinese attitude has probably been influenced by Soviet pressure over the Dairen issue, pique over the outcome of the Wedemeyer mission, and the desire to push the US into granting further military and economic aid.)

EUROPE

2. YUGOSLAVIA: Reconstruction program for Venezia Giulia territory--
US Ambassador Cannon reports that the Yugoslav Government has announced a \$70 million five-year program for economic reconstruction in the Venezia Giulia area recently acquired from Italy. Cannon believes that the program represents another step in the Yugoslav campaign to undermine the economic independence of Trieste, but that its potentialities are more political than economic.
3. USSR: US protests Soviet propaganda attack on Truman--US Embassy Moscow has been authorized to make a protest to the Soviet Foreign Office concerning the "wantonly libelous" personal attack on President Truman published in the Soviet LITERARY GAZETTE on 20 September.

THE AMERICAS

4. ARGENTINA: US to support Argentine candidacy for SC--The Department of State has instructed the US Delegation to the UN to support Argentina's candidacy for a seat on the Security Council in the probable

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event of nomination by the Latin American countries. The Department has further instructed the Delegation to express to the Argentine UN representative the US view that participation in the International Emergency Food Council (IEFC) should accompany Argentine membership in the SC, and that such participation would favorably dispose European nations toward Argentine candidacy in the SC.

Negotiations for US grain purchase--US Ambassador Bruce
believes that: (a) the Argentine Trade Promotion Institute may cancel British export licenses for corn and wheat in order to sell to the US at "substantially higher prices"; and (b) in this event, the US would probably have to carry out Argentine grain commitments to the UK.

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EUROPEAN RECOVERY

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In view of the rapid deterioration of the economic and political situations in France and Italy, US representatives Clayton, Douglas, and Caffery have recommended to the Department of State that congressional committees concerned with the implementation of the European recovery program be convened about 1 October and that a special session of Congress be scheduled for early November.

TRIESTE

Communist leaders in Trieste have engineered a general strike in the city in order to weaken the position of the Allied Military Government (see item 1).

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GREECE

No significant new development.

INDONESIA

In a policy statement issued at The Hague on 23 September, the Dutch have indicated that they consider it unnecessary to reopen "police action" in Indonesia at the present time, but they maintain the view that negotiations with the Republic are not possible so long as unstable elements control its government. The Consular Commission in Batavia finds that the UN Security Council's cease-fire order on Indonesian hostilities has not been fully effective (see item 3).

CHINA

No significant new development.

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EUROPE

1. TRIESTE: Communists force general strike--US-UK Commanding General Airey in Trieste reports that the general strike in the city was instigated by pro-Yugoslav Communists "acting on instructions from the outside." General Airey believes that the strike is not popular, but is designed to test the strength of the Allied Military Government and possibly to provide Yugoslavia with a new opportunity to demand that Yugoslav troops be permitted to enter the city.
2. GERMANY: Kugelfischer plant to be dismantled--US Political Adviser Murphy reports from Berlin that as a result of an OMGUS survey, machinery will be removed from the Kugelfischer bearing plant at Schweinfurt and turned over to the Inter-Allied Reparations Agency. Murphy adds that the machinery will be replaced from plants at Schweinfurt and Bad Cannstatt.

(CIA Comment: The Kugelfischer bearing plant has been widely publicized as the most desirable reparations prize in Germany. The announcement, therefore, of the decision to dismantle it will have a strong propaganda effect in Western Europe as evidence of US good faith.)

FAR EAST

3. INDONESIA: Consular Commission reports cease-fire violations-- The Consular Commission in Batavia in its first report to the UN Security Council indicates that the cease-fire order of 5 August is not fully effective and that casualties and damage continue. The Commission's incomplete investigation shows that failure of both parties to agree on a demarcation line has caused patrol clashes and sniping to continue unabated. The Commission has been unable thus far to discover any practical interim measures which would secure a more effective observance of the cease-fire order.

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EUROPEAN RECOVERY

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In signing the CEEC report, European leaders emphasized the need for US aid to Europe before the end of 1947 in order to forestall widespread economic collapse and possible revolution.

TRIESTE

The Yugoslav Foreign Office has indicated to the US Ambassador in Belgrade that the Yugoslav Government desires to participate in the administration of the city pending the appointment of a governor.

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GREECE

No significant new development.

INDONESIA

The Consular Mission in Batavia, appointed by the Security Council to observe enforcement of cease-fire orders in Indonesia, has submitted its first report on the situation. It is expected that the survey will be completed by the end of September.

CHINA

The National Government's military and political position in Manchuria has somewhat improved as a result of effective action by the new Commander, Chen Cheng. However, the Nationalist position is still precarious and military initiative remains with the Chinese Communists (see item 7).

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GENERAL

1. Arab League preparing for war in Palestine--According to US Minister Pinkerton in Beirut, the Arab League Political Committee (in secret session at Sofar, Lebanon) has issued a communique stating that: (a) the Committee will oppose application of the UNSCOP majority report by "all practical and workable means"; (b) the Palestine Arabs will resort to war to oppose aggression, knowing that the Arab States will supply men, money, and material; and (c) the Committee will point out to all Arab peoples the danger of the Palestine affair so that every Arab "may give aid to Palestine according to his means."
2. Threat of Ukrainian bands in Czechoslovakia discounted--According to the US Military Attaché in Prague, Ukrainian Partisan operations in Czechoslovakia are more of a nuisance than a real threat. (US Army Headquarters Frankfurt had reported that an estimated 3,000 Partisans had reached Czechoslovakia and were attempting to enter US Zone Germany; see Daily Summary of 20 September, item 2). The MA believes it is unwise to emphasize the military or political significance of these bands which are composed mostly of former German soldiers, adventurers, criminals, and individuals personally dissatisfied with their lot.
3. US approves principle of further Ruhr talks with French--The Department of State has advised Under Secretary Clayton and Ambassador Caffery that it approves in principle the continuation of conversations with the French in order to devise some international device for control of Ruhr production (see Daily Summary of 18 September, item 1). The Department suggests, however, that the talks be deferred until after Secretary Marshall and Foreign Minister Bidault have held preliminary discussions in New York on the fusion of the French Zone with the US-UK Zones Germany.

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EUROPE

4. TRIESTE: US maintains firm attitude toward Yugoslavs--The Department of State has requested its Political Adviser in Trieste to inform General Airey that a "most serious situation has thus far been avoided only by his admirable and firm attitude" toward the Yugoslavs. The Department feels that this firm attitude must be vigorously maintained and that overt and subversive Yugoslav actions must be checked at all times.

5. ITALY: Dunn recommends assistance before confidence vote-- According to US Ambassador Dunn, Prime Minister De Gasperi has expressed his deep concern over the forthcoming vote of confidence and has declared that he will have to mobilize every possible support in order to pull through. (The vote of confidence originally scheduled for 23 September has been postponed until 27 September.)

Dunn believes that immediate measures in support of the Government may be the decisive factor and he therefore recommends that the US announce the immediate granting of aid totaling \$50 or \$60 million.

6. USSR: Claims US Senators intended to investigate USSR-- US Embassy Moscow reports that in refusing the request that a group of US Senators be allowed to visit Moscow "on an inspection trip in connection with the work of the US Embassy," the Soviet Foreign Office stated that: (a) the trip of the Senators "partakes of the nature of an investigation"; and (b) "since the Soviet Union cannot be subjected to investigation on the part of American Senators, their trip to the USSR is not considered suitable."

Vyshinsky's speech increases Moscow animosity toward US-- The US Military Attaché in Moscow comments that Vyshinsky's speech and subsequent bitter Soviet propaganda represent a new high in Soviet attacks on the US. The MA notes that this intensified propaganda has had a pronounced effect in increasing local animosity against the US.

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FAR EAST

7. CHINA: Nationalist position strengthened in Manchuria--US military and consular officials in Mukden and Changchun report that the National Government's military and political position in Manchuria has definitely been strengthened through energetic and positive action by General Chen Cheng, the new Nationalist commander. Assistant US Military Attachés in Changchun estimate that, if the Communist forces do not initiate a sustained major offensive before 1 October, the Nationalists' chances of maintaining their present lines are excellent. However, US officials in both cities note that the local population remains skeptical of Chen's ability to maintain the present pace of internal reform while simultaneously conducting effective military operations from an extremely vulnerable position.

(CIA Comment: Although the selection of Chen Cheng as the new Nationalist commander was a fortunate one, the Nationalist position in Manchuria remains precarious. The overall military and political initiative continues to rest with the Chinese Communists who are still in a position to start a sixth major offensive or to carry out widespread sporadic operations practically at will.)

8. FIC: Bao Dai to insist on large degree of independence--According to the US Consul General in Saigon, sources recently in communication with Bao Dai in Hong Kong indicate that before setting up a provisional government, Bao Dai will insist upon a much larger degree of independence than he has been offered by French High Commissioner Bollaert.

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CRITICAL SITUATIONS

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EUROPEAN RECOVERY

Unanimous agreement has been reached by the CEEC on the necessity for establishing a joint organization which will review the progress achieved in the execution of the European recovery program.

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GREECE

No significant new development.

INDONESIA

The Vice President of the Indonesian Republic has asserted that resistance against the Dutch would be continued on Sumatra even if the Dutch should occupy the Republican capital on Java.

CHINA

The position of the National Government has deteriorated seriously under the double impact of renewed Communist military activity and the continued lack of US aid (see item 5).

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GENERAL

1. Analysis of Yugoslav intentions in Trieste--The US Political Representative in Trieste, in concurrence with his British colleague, submits the following views of the situation in Trieste: (a) the twice-repeated attempt by the Yugoslavs to send troops into the City of Trieste indicates their determination to secure control of the city; (b) irresponsible irredentist activities by pro-Italians may provide pro-Slavs and Communists a pretext for insisting upon participation in local government and possibly for attempting a military move; and (c) Yugoslavia can be expected to conduct a vigorous war of nerves against the Allied Military Government.
2. US protests Yugoslav actions in Trieste--The Department of State has instructed US Embassy Belgrade to deliver a strong protest to the Yugoslav Government against the irresponsible actions of the Yugoslav military in presenting ultimatums to Allied authorities in Trieste. The protest is to warn that the US considers such actions "exceedingly dangerous and likely to precipitate incidents leading to most serious consequences."
3. Arabs attack US and UK on Palestine issue--The Syrian Prime Minister has informed US Charge Memminger that the Political Committee of the Arab League has decided to submit a note to the US and UK Governments reiterating the Arab view that "responsibility for future events in Palestine" rests entirely on the US and UK.

EUROPE

4. FRANCE: Communists not to strike if DeGaulle returns--US Ambassador Caffery has been told in strictest confidence by a high official of the Interior Ministry that the Central Committee of the Communist Party has denied that the Communists will immediately call a general strike in the event of DeGaulle's return to power. Caffery believes the information to be reliable.

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GENERAL

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1. UK views on US proposals in UN--The US delegation to UN has been told by Gladwyn Jebb of the UK delegation that the UK delegation will support the US proposal for a General Assembly interim committee and the restriction of the use of the veto on applications for membership; but that it cannot go as far as the US on the veto question with reference to the pacific settlement of disputes. Jebb inquired of the US delegation whether the US intended to force a showdown with the USSR which might result in Soviet withdrawal from the UN. The US delegation assured Jebb that such was not the case.
2. Ukrainian Partisans fighting in Slovakia and Moravia--US Army Headquarters Frankfurt reports that strong Ukrainian Partisan forces have succeeded in breaking through Soviet and Satellite troops into Slovakia and Moravia and that an estimated 3,000 of these forces are trying to reach US Zone Germany.

EUROPE

3. FRANCE: Communists plan mass action--US Embassy Paris has received "reliable" reports that Moscow has instructed the French Communist Party to prepare for large-scale strikes and other mass demonstrations. Moreover, Thorez has warned the Political Bureau that the Party must be ready for action "especially in the event that the Soviet Union is obliged to depart from the UN."

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(CIA Comment: Such acceleration of mass action, presumably designed to embarrass the present French Government and force the re-entry of the Communists in the Cabinet, would parallel the recent wave of strikes in Italy and the country-wide protest against the non-Communist Government scheduled for 20 September.)

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The French official also told Caffery that unless Ramadier has received before the end of October the assurance of obtaining essential food and coal during the vital period prior to the implementation of the Marshall proposals, "the present government is doomed."

FAR EAST

5. CHINA: National Government seriously weakened--Ambassador Stuart reports from Nanking that the political, economic, and military situation of the National Government has recently deteriorated to such a degree that the regime shows indication of beginning to lose its "will to live." Stuart states that Communist military activity, together with the lack of expected US aid, has had the cumulative effect of intensifying a tendency toward panic. Stuart believes that the position of moderate Kuomintang members who hold important positions in the Government has been weakened by a succession of disappointments, climaxed by the parting remarks of General Wedemeyer.

THE AMERICAS

6. CUBA: Dominican revolutionaries--According to the US Naval Attaché Havana, the Cuban Army has seized 13 truckloads of munitions and bombs believed intended for use by Dominican revolutionaries.

US Ambassador Norweb believes, subsequent to the seizure of these munitions, that the Dominican invasion attempt is "rapidly crumbling."

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

US objections to the first draft of the CEEC report are apparently being met, and Foreign Minister Bevin now appears satisfied with the procedures agreed upon at meetings of the CEEC Executive Committee.

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GREECE

No significant new development.

INDONESIA

The US has accepted the invitation of Belgium and Australia to become the third member of the three-nation commission of good offices to act in the Indonesian dispute.

CHINA

The appointment of T.V. Soong as Governor of a south China province appears designed to counter separatist tendencies and to promote economic reconstruction and stability in an area remote from civil conflict (see item 5).

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EUROPE

1. FRANCE: Bidault to adopt definite "stand" on USSR at UN-- Ambassador Caffery reports from Paris that Foreign Minister Bidault told him on the eve of Bidault's departure for New York that he was determined to take a "definite stand" in the UN General Assembly in regard to the USSR.
2. GERMANY: Paulus reported in Berlin-- US Political Adviser Murphy verifies rumors that ex-Field Marshal Paulus and Count Heinrich Einsiedel, prominently associated with the Moscow Free Germany Committee, are in Berlin. Murphy adds that a leading German official in the Soviet zonal administration states that Paulus and Einsiedel are apparently organizing a new Soviet-sponsored nationalistic movement to replace the failing Socialist Unity Party.

(CIA Comment: CIA concurs in the belief that Paulus and Einsiedel are in Berlin for the reasons advanced.)

NEAR EAST-AFRICA

3. INDIA: Nehru may be ousted from premiership-- US Ambassador Brady has been informed by a prominent Sikh Prince that the split in the Indian Cabinet "is very serious and that Nehru would probably be ousted within two weeks." (The Embassy has previously cited persistent reports that Patel, conservative Minister of the Home Department and protagonist of big business, is attempting to oust Nehru from the premiership of the Dominion of India.)

FAR EAST

4. KOREA: Soviet delegation in Seoul a security hazard-- General Hodge reports that although the Korean Joint Commission has not met for ten days, the 100-man Soviet delegation shows no indication of leaving Seoul and is actively guiding and aiding the Communists

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in South Korea. Hodge urges that a recess be proposed for the purpose of forcing the departure of the Soviet delegates, because he believes their continued presence is an "unwarranted hazard to security."

5. CHINA: T. V. Soong appointed Governor of Kwangtung--US Embassy Nanking reports that Chiang Kai-shek's nomination of T. V. Soong as Governor of Kwangtung has been accepted by the National Government. (Soong has been in semi-retirement since last March, when Kuomintang leaders engineered his resignation as Premier by blaming him for China's economic crisis. Last week, however, Soong donated part of his domestic financial assets to the Kuomintang.)

(CIA Comment: Soong's new appointment appears designed to counter separatist tendencies that have been developing in south China and to promote economic reconstruction and stability in that area, which is remote from the civil war. Chiang undoubtedly believes that Soong's long financial experience and close association with the Western Powers will be valuable to the Nationalist regime.)

THE AMERICAS

6. ARGENTINA: Supports US against USSR--According to US Ambassador Bruce, Foreign Minister Bramuglia has stated that: (a) Argentina is with the US in the ideological war against the USSR; (b) Argentina will continue with the US in any kind of war against the USSR; and (c) it is "nonsense" to believe that Argentina is endeavoring to take a "third course" between the US and the USSR. Bramuglia also expressed the opinion that the Soviet Ambassador's departure for the USSR reflects Moscow's dissatisfaction with the Soviet Embassy's failure to disrupt the Rio Conference by splitting Argentina and the US.

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7. ECUADOR: Recognition of new Government recommended--US Embassy Quito recommends that the US recognize the new Arosemena Government on the grounds of its continuity with the previous constitutional regime.
8. PERU: Anti-democratic trend against US interests--US Ambassador Cooper reports his opinion that US interests in Peru will be adversely affected if the anti-democratic trend of the Peruvian Government continues.

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CRITICAL SITUATIONS

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EUROPEAN RECOVERY

US representatives Clayton, Caffery, and Douglas have requested permission, in view of the precarious political situation in France, to continue US-UK-French efforts to evolve a plan to use the Ruhr industrial potential for European recovery while still safeguarding French security (see item 1).

GREECE

The Department of State has approved AMAG Chief Griswold's recommendations that the temporary increase in the Greek Army of 20,000 be extended to January and that a permanent increase of 10,000 be authorized.

INDONESIA

The British Foreign Office has indicated that it may suggest to former Premier Sjahrir that he contact the Dutch in the hope that discussions may pave the way for the resumption of Dutch-Republican negotiations.

CHINA

The diversion of Nationalist troops to counter the current Chinese Communist raids along the Yangtze and Yellow Rivers will probably reduce the Nationalist potential in critical Shantung Province and disrupt the Nationalists' efforts to reinforce their position in Manchuria.

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GENERAL

1. US representatives ask for further Ruhr talks--Under Secretary Clayton and Ambassadors Caffery and Douglas have requested from Paris that they be permitted to continue the US-UK-French conversations looking to the establishment of an international device, such as an allocating board, for the control of Ruhr production. The US representatives add that the increasingly critical French political situation makes the continuance of the talks more urgent now than several weeks ago.

(CIA Comment: A solution to the Ruhr problem guaranteeing French security and affording France increased benefits from the German industrial potential would deprive the French Communist Party and French Rightists of one of their most forceful propaganda lines.)

EUROPE

2. UK: Montgomery may resign if army cut below 530,000--US Military Attaché London reports

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that Field Marshall Montgomery will resign if he is forced to cut the army below 530,000 men by 1 April 1948.

(CIA Comment: Strong political pressure and the decision to withdraw UK forces from India this year reduced the planned army strength for 1 April 1948 from an estimated 672,000 to 566,000. In August the ceiling was cut to 549,000, and during the last two weeks the army agreed to reduce its strength to 530,000. Political pressure for further reductions will undoubtedly continue.)

3. ITALY: Dunn reports dollar crisis imminent--US Ambassador Dunn believes that an imminent dollar crisis threatens Italy. Dunn declares that if the crisis is allowed to break, production, transportation, and employment will be so sharply restricted as to cause a political upheaval previously unmatched in Italy. He adds that without assistance the De Gasperi Government will fall and "democracy will be ended in Italy."

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4. USSR: Molotov calls November CFM "prejudged"--US Ambassador Smith in Moscow reports that Molotov, at the ceremony for the deposit of the Balkans and Finnish Peace Treaty ratifications, appeared most reluctant to join in a toast to the success of the November meeting of the CFM and commented that the meeting was already "prejudged." Smith adds that Molotov took the occasion "to indulge in several barbed comments" directed at the UK Charge and himself.

FAR EAST

5. INDONESIA: Sjarifuddin amends statement on future of Republic--US Consul General Foote Batavia reports that Republican Premier Sjarifuddin has denied his reported statement that a free Indonesian Republic would remain within the Netherlands Commonwealth (see Daily Summary of 17 September, item 6). Sjarifuddin declared that his comment was to the effect that the Indonesians are willing to cooperate with the Dutch on the basis of "de jure recognition of the Republic." Foote suggests that the Premier's retraction was the result of the application of pressure by military authorities who felt that he had committed the Cabinet too far.

THE AMERICAS

6. BOLIVIA: Discovery of pitchblende possible--US Ambassador Flack has been informed "in strict confidence" by a Foreign Ministry official that: (a) President Herzog desires two US engineers to proceed immediately to Bolivia to examine deposits reported to be either pitchblende similar to that in the Belgian Congo or high grade iron; and (b) the Bolivian Government wishes to develop these deposits with the aid of US capital.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

US Representatives Clayton, Caffery, and Douglas believe that any attempt to disregard national frontiers in a program for European recovery will lead to a dangerous degree of planned economy and frustrate natural economic restoration (see item 1).

GREECE

Reliable reports indicate that Soviet-trained Rumanian soldiers are assisting the Greek guerrillas (see item 2).

INDONESIA

Former Premier Sjahrir, in calling for active participation by the UN in solving the Indonesian problem, described the situation in Indonesia as the most acute manifestation of the world-wide colonial problem and warned that Dutch use of force would make an eventual solution more difficult. Present Republican Premier Sjarifuddin has asked for supervision by a third power of the execution of any ultimate Dutch-Indonesian agreement (see item 6).

CHINA

The recent statement by Dr. Sun Fo, Vice President of the National Government, that China will seek closer cooperation with the USSR, if the US does not soon extend assistance, represents another move in the Chinese Government's diplomatic offensive to win US support. The possibility of a future USSR-Chinese Government alignment cannot be ruled out, however, because the Government is capable of making extreme concessions to avoid ultimate political extermination.

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GENERAL

1. French sign Port Lyautey agreement with US--US Ambassador Caffery reports that on 15 September Foreign Minister Bidault signed the US-French Port Lyautey agreement. (This agreement returns Port Lyautey, now a US naval air station, to French sovereignty on 1 January 1948; in addition, the agreement contains a highly classified understanding permitting the US to retain certain landing and communication rights there.) Caffery declares that French acquiescence took considerable courage because Bidault would be attacked by both Gaullists and Communists if the details of the agreement were made public.
2. Rumanian participation in Greek fighting reported--US Military Delegate ACC Bucharest has been informed that more than 200 wounded Rumanian soldiers, members of a Soviet-trained division, are being treated at a Bucharest hospital for wounds received in fighting on the Greek frontier. The Delegate believes that the striking similarity of numerous reports recently received on this subject and the high reliability of some of the sources clearly indicate that Rumanian Communists are taking an active part in Greek guerrilla warfare.

(CIG Comment: This is the most specific report yet received of participation by Satellite personnel in support of the Greek guerrillas.)

EUROPE

3. UK: Estimate of Labor Party position--US Embassy London has been informed by a "reliable source" in the UK Labor Party that headquarters of the Labor Party thinks that it would be defeated if a general election were held now. The Embassy comments that the voting in a recent by-election (in a working-class district), although it gave Labor a majority, showed a "strong and unmistakable" swing to the Conservative Party.

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(CIG Comment: A Gallup poll taken before mid-August indicated that 52% of the British people were dissatisfied with the Government's record, while 37% disapproved of Prime Minister Attlee. Both figures would probably be higher now.)

4. TRIESTE: Yugoslav troops will not enter city--US Ambassador Dunn in Rome reports that Yugoslav troops have abandoned their intention to enter the city of Trieste (see Daily Summary of 16 September, item 1) after receiving instructions from Belgrade to accept the "diplomatic situation" which requires agreement among the three occupying powers before Yugoslav troops can enter Allied areas.
5. CZECHOSLOVAKIA: Benes-Gottwald conversation reported--US Charge Yost in Prague reports as "accurate in substance" a recent conversation between President Benes and Communist Prime Minister Gottwald in which Benes stated that: (a) the Communists are destroying the National Front and subverting the normal political life of the country; (b) he would not stand for non-Communist parties being eaten up one by one as had occurred in other Eastern European countries; and (c) he would not ease the way for a Communist coup either by resigning or by leaving the country. The US Military Attaché in Prague comments that Benes' action is his strongest intervention in a domestic political issue since 1945 and it will probably make the Communists proceed with caution.

FAR EAST

6. INDONESIA: Republic willing to negotiate with Dutch--US Consul-General Foote at Batavia reports that Republican Premier Sjarifudin stated at a press conference that: (a) Republican authorities are prepared to resume negotiations with the Dutch; and (b) the Dutch-Indonesian dispute could be settled with the Republic remaining

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within a Netherlands Commonwealth as a free and independent nation provided that a third power, preferably the US or UK, supervised the execution of the ultimate Dutch-Indonesian agreement. Foote states that a three-nation commission under Security Council auspices would be welcomed by the Republic as a means of ending the impasse.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

French and Italian Communists, apparently assuming that the present stage of the European economic situation is especially favorable to their objectives, are currently making a vigorous effort to oust the Ramadier and De Gasperi governments before their positions can be strengthened by the formulation of a European economic program.

GREECE

Unless the guerrilla situation can be promptly liquidated, the present American Aid to Greece (AMAG) program will fail to achieve its objectives (see item 3).

INDONESIA

No significant new development.

CHINA

No significant new development.

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C R I T I C A L N E W S A N D P O I N T S

E U R O P E A N R E C O V E R Y

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G R E C E

Unless the guerrilla situation can be promptly liquidated, the present American Aid to Greece (AIDAG) program will fail to achieve its objectives (see Item 3).

I N D O N E S I A

No significant new development.

C H I N A

No significant new development.

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GENERAL

1. US protests Yugoslav intention to occupy Trieste--The Department of State has instructed US Embassy Belgrade to protest "in the strongest terms" the announced Yugoslav intention to send a detachment of troops into the city of Trieste. The Embassy is to point out that, under the terms of the Italian Peace Treaty, Yugoslav troops can be stationed only in that part of the Free Territory of Trieste (FTT) currently under Yugoslav military occupation, which does not include the city of Trieste. (This provision will obtain until a governor of FTT has assumed office.) The Supreme Allied Commander Mediterranean has informed the Yugoslav Military Commander that he cannot allow this proposed move.

(CIG Comment: The Yugoslav Government will probably not risk a show of force at this time but will continue to use every possible means to create unrest in Trieste pending the appointment by the Security Council of a governor of FTT.)

2. UK views on Trieste governor issue--According to US Embassy London, UK Foreign Office officials believe that: (a) the US and UK should be in no hurry about finding a governor for Trieste; (b) since the USSR has rejected all US-UK suggestions, it is now up to the USSR to present a satisfactory candidate; and (c) it is to the advantage of the US and UK, unless a good governor can be found, to have the existing situation continue as long as possible.

EUROPE

3. GREECE: AMAG objectives endangered by guerrilla situation--AMAG Chief Griswold reports that "the promptest liquidation of the guerrilla situation is essential" in order for AMAG to achieve its objectives and states that "forceful measures at this time may avert the necessity for more dangerous and costly measures later." Griswold urges that: (a) the temporary increase of 20,000 in the Greek Army be continued until early January; (b) a permanent increase of 10,000 be authorized; and (c) the US promptly dispatch 125 to 200 Army officers to be attached to the Greek General Staff and to fighting units, if the British cannot furnish such assistance.

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NEAR EAST-AFRICA

4. PALESTINE: Arab uprising expected--A Jewish Agency official has informed US Consulate General Jerusalem that, according to information recently received by the Agency, the Grand Mufti intends to begin disturbances in Palestine without waiting for the outcome of the UN General Assembly's deliberations on the Palestine question.

The Secretary General of the Arab League has informed US Embassy London that in his view an Arab-Jewish war will result from the General Assembly's acceptance of either the majority or minority report of the UN Special Committee on Palestine.

(CIG Comment: Although an Arab uprising inspired by the Mufti is probable in Palestine, it is unlikely that the Arab Governments will officially support the Mufti until some decision has been reached by the UN.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The French Government has notified US Embassy Paris that French gold and dollar reserves will probably be exhausted before the end of October (see item 2).

GREECE

Guerrilla operations are increasing while the Greek Army remains on the defensive. The guerrillas are also conducting a successful recruiting campaign, despite the new amnesty offered by the Greek Government.

INDONESIA

Netherlands forces are continuing to occupy new towns beyond the line of positions held by the Dutch at the time of the Security Council cease-fire order. The purpose of these advances appears to be to deny to Indonesian Republican guerrilla groups established centers from which to operate against Dutch-held areas.

CHINA

No significant new development.

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GENERAL

1. US agrees to withdrawal from Greece of UK battalion--In reply to Bevin's suggestion, the US has reluctantly agreed to the withdrawal from Greece of one UK battalion of not more than 800 troops, provided there are definite assurances that no more withdrawals will be made until "at least" 15 December and provided no publicity creates the impression of the beginning of a major withdrawal. Bevin had previously told US Ambassador Douglas that this action would: (a) improve his own domestic political position; and (b) establish a precedent for the withdrawal of USSR troops from Bulgaria. Bevin added that the retention of UK troops in Greece for the winter presented the difficulty of finding cold weather accomodations.

(CIG Comment: Bevin's remarks contrast with his hitherto intransigent attitude on withdrawing the UK troops. Developments between now and 15 December will probably justify the UK's retention of troops in Greece beyond that date; Bevin's remark about winter accomodations may reveal that he foresees this possibility. Because USSR troops are bound to leave Bulgaria by the terms of the peace treaty, while UK troops in Greece are under no such injunction, to set up the withdrawal of the UK battalion as a quid pro quo for a USSR withdrawal from Bulgaria would seem to be an unnecessary invitation to the USSR to bargain.)

EUROPE

2. FRANCE: Gold and dollar reserves near exhaustion--The French Government has given US Embassy Paris a memorandum declaring that: (a) the gold and dollar reserves of the Treasury will probably be exhausted before the end of October; (b) to maintain its current purchases in the US until 1 April 1948, France will require approximately \$600 million; and (c) lacking such aid, France must cut down its imports of indispensable raw materials and food.

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3. ITALY: Dunn recommends US announcement on Italian fleet--US Ambassador Dunn recommends that if the US decision is not to accept its share of the Italian fleet, as allocated by the four-power naval commission under the terms of the Italian peace treaty, the full advantage of "the beneficent gesture" should be obtained by a press release indicating that the US intends to relinquish all such claims.

US urged to equip Italian army--Dunn also reports that the Italian Army is still lacking the materiel required to establish the minimum level of a balanced force. Dunn urges that the US make every effort to insure that the reduced Italian forces are as well-equipped as possible.

(CIG Comment: Adequate equipment for the Government's troops would appear to be essential to the security of the De Gasperi Government because of: (a) the withdrawal of US-UK occupation forces; (b) the increasing unrest of the Communists; and (c) the necessity for guarding the Yugoslav frontier.)

FAR EAST

4. CHINA: Nationalist proposal to obtain US ammunition--US Ambassador Stuart has learned that Chen Cheng, Nationalist Chief of Staff and concurrently Nationalist Commander in Manchuria, suggested to General Wedemeyer last month that: (a) US stocks of ammunition now in western Pacific areas should be shipped to China to meet the urgent needs of Nationalist forces; and (b) China should concurrently purchase ammunition in the US and ship it to the western Pacific as replenishment. Stuart notes that such an arrangement, while entailing cash payment by the Chinese for ammunition purchases, would involve the US more closely in China's civil war.

(CIG Comment: Two likely motives for Chen's proposal were: (a) to involve the US; or (b) to impress upon the US the urgency of the Nationalist ammunition shortage. CIG estimates that under such an arrangement, the transfer of ammunition from the US to China would be set in operation only two or three weeks earlier than it would under a direct shipment plan.)

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THE AMERICAS

5. BRAZIL: Dutra desires US aid--US Ambassador Pawley has been told by the Brazilian Ambassador to the US that President Dutra's Cabinet is pressing him to obtain US help, and that Dutra is "extremely distressed and annoyed" because he believes that there has been practically no US aid, although the US has been "constantly seeking and obtaining Brazil's cooperation."

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GENERAL

1. CEEC postpones meeting for receiving report--US Embassy Paris
reports that: (a) the Committee for European Economic Cooperation (CEEC) has decided, in response to US suggestions, to postpone until 20-22 September the meeting originally scheduled for 15 September for the formal presentation of the CEEC report; (b) prior to the 20-22 September meeting the CEEC will consider US suggestions for "materially improving" the present draft of the report.

EUROPE

2. CZECHOSLOVAKIA: Sudden Communist-Social Democratic agreement--
US Charge Yost in Prague reports that leaders of the Social Democratic Party have suddenly been induced to sign a joint Communist-Social Democratic communique announcing an agreement to cooperate politically and to strive for the renewal of the "Socialist bloc" within the National Front.

Yost comments that it is difficult to see how the Social Democratic center leaders could have been induced to reverse their previous anti-Communist position so suddenly without being subjected to pressure. He adds that the communique will probably seriously jeopardize the efforts of the right and center Social Democratic leaders to shift the party away from the Communists, and will further discourage other non-Communist parties.

FAR EAST

3. FRENCH INDOCHINA: Bidault unaware of planned offensive--French Foreign Minister Bidault has told US Ambassador Caffery in Paris
that he is not aware of any plans for a French military offensive against Vietnam at the end of September.

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CIA/PARIS

1. CEEC postponed meeting for receiving report--US Embassy Paris reports that (a) the Committee for European Economic Cooperation (CEEC) has decided, in response to US suggestions, to postpone until 20-22 September the meeting originally scheduled for 16 September for the formal presentation of the CEEC report; (b) prior to the 20-22 September meeting, the CEEC will consider US suggestions for "materially improving" the present draft of the report.

EUROPE

2. CZECHOSLOVAKIA: Sudden Communist-Social Democratic agreement-- US Charge d'Affairs in Prague reports that leaders of the Social Democratic Party have suddenly been induced to sign a joint Communist-Social Democratic communique announcing an agreement to cooperate politically and to strive for the renewal of the "Socialist bloc" within the National Front.

Text documents that it is difficult to see how the Social Democratic center leaders could have been induced to reverse their previous anti-Communist position so suddenly without being subjected to pressure. He adds that the communique will probably seriously jeopardize the efforts of the right and center Social Democratic leaders to shift the party away from the Communists, and will further discourage other non-Communist parties.

FAR EAST

3. FRENCH INDOCHINA: Bidault unaware of planned offensive--French Foreign Minister Bidault has told US Ambassador Caillard in Paris that he is not aware of any plans for a French military offensive against Vietnam at the end of September.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Ambassador Douglas has been instructed to explain to Foreign Minister Bevin that the US believes that certain revisions of the CEEC draft should be undertaken at the 15 September meeting of the Foreign Ministers of the CEEC nations (see item 1).

GREECE

The general situation in Greek Thrace has become so bad that the whole area may fall under the control of the guerrillas (see item 5).

INDONESIA

No significant new development.

CHINA

The National Government has renewed its plea for US materiel and ammunition (see item 7).

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GENERAL

1. Bevin given US views on CEEC Foreign Ministers' meeting--The Department of State has asked Ambassador Douglas to explain to UK Foreign Minister Bevin that the US welcomes the 15 September meeting in Paris of the Foreign Ministers of the sixteen countries of the CEEC, but hopes that they will not rubber-stamp the report. The US feels the meeting should: (a) seek to revise the present report to incorporate elements considered essential by the US; (b) indicate that the report is only a preliminary study; and (c) agree to leave the technical working groups in session to make possible revisions in the final report.
Douglas has also been asked to urge Bevin to drop his objection to the inclusion of the bizonal area in CEEC considerations. (Bevin appears to feel that inclusion of the area would offend the French and jeopardize the November CFM.)
2. US policy on reparations from US-UK Zones Germany--The Departments of State and War have informed General Clay and Ambassador Murphy that: (a) no reparations are to be delivered from the US-UK Zones Germany until after the conference of the CFM in November; and (b) preparations are to be made for the resumption of deliveries to certain countries immediately after the Conference. If the Conference does not obtain the economic unification of Germany, the US plans to suspend indefinitely all reparations deliveries to the USSR.
3. USSR-Czechoslovak air arrangements--US Embassy Prague reports that Czechoslovak air authorities, following discussions with the Soviet Deputy Chief of Civil Aviation, have secured the use of the Soviet airport at Berlin in operations to Scandinavia, but have failed to gain permission to fly through Soviet territory and through the Balkan States to Turkey.
(CIG Comment: The USSR, while prepared to assist and exploit Czechoslovakia's international air operations, is apparently unwilling to sponsor a Czechoslovak air route to Turkey through the Balkans, foreseeing a Turkish demand for reciprocal rights to overfly Rumania and Bulgaria.)

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4. USSR requests withdrawal of US Naval Attache Odessa--The Soviet Government has requested US Embassy Moscow to close the Assistant Naval Attache's office in Odessa by 15 September. The Department of State has requested Embassy Moscow's recommendations regarding the feasibility of securing Soviet permission to establish a consulate at Odessa. (The USSR requested in the summer of 1946 that the Odessa office be closed, along with several others established during the war, but granted a US request to allow it to remain open until the completion of UNRRA operations in that port.)

EUROPE

5. GREECE: Guerrilla control of Thrace feared imminent--The US member of the UN Sub-Commission in Salonika, Lieutenant Colonel Miller, has informed US Military Attache Athens that the guerrillas will be able to assume complete control of Greek Thrace unless steps are taken to alleviate conditions in the area before cold weather sets in. Miller stressed the need for immediately arming and organizing civilians under military supervision so that they can defend their own localities, thus releasing Greek Army forces to conduct aggressive action against the guerrillas. The MA believes that Communist control of Thrace would be followed by Bulgarian annexation of the area, "which probably could not be rectified peacefully."

NEAR EAST-AFRICA

6. IRAN: Clarification of US position sought--According to US Ambassador Allen, the impression is gaining in Iran that "the great powers have made an agreement on Iranian oil." The president of the Majlis has sent word to Allen that if the US allows a false impression of its attitude to remain uncorrected, few deputies will remain firm in the face of Soviet threats. (Ambassador Allen sought to reassure the Iranians in an address delivered to the Iran-American Relations Society on 11 September.)

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FAR EAST

7. CHINA: National Government renews request for US military aid--
 US Embassy Nanking reports that the Chinese National Government, in renewing its plea for US materiel and ammunition supplies, has emphasized the desperate shortage of ammunition in the Nationalist Army. US Military Attaché points out, however, that because of an inadequate inventory and supply system, the Chinese actually do not know whether or not there is an ammunition shortage.

(CIG Comment: While Chinese ammunition supplies are believed to be fairly low, the shortage is probably less critical than represented. Moreover, Chiang Kai-shek, in a reported speech to Kuomintang members, recently asserted that the National Government could carry on its war against the Communists for one or two years, if necessary, without foreign aid.)

THE AMERICAS

8. DOMINICAN REPUBLIC: Revolutionaries may attempt invasion--
 The Navy Department has informed the Commander in Chief of the Atlantic Fleet that, according to a "reliable source," the Dominican revolutionaries (now based on an island off the northern coast of Cuba) may attempt landings in the Dominican Republic before 15 September.

(CIG Comment: It continues to look probable that a revolutionary invasion will be unsuccessful if attempted.)

9. VENEZUELA: Rumored invasion from the Dominican Republic--
 The Acting Venezuelan Foreign Minister has informed the US Charge in Caracas that a "not overly reliable" source expected an "armed blow from Santo Domingo" on 11 or 12 September. The Acting Foreign Minister added that if the attack occurred, the Venezuelan Government would "take retaliatory steps immediately."

(CIG Comment: Such an attack would presumably be made by Venezuelan revolutionaries based in the Dominican Republic and not by Dominican troops. Rumors that such an invasion attempt would be made under ex-President Lopez Contreras' leadership, have been current for several months. CIG estimates that: (a) such an attack is at present improbable; and (b) if attempted, it would be unsuccessful.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The UK has instructed its representatives to counteract US efforts to obtain a revision of the present draft of the Committee for European Economic Cooperation (see item 1).

GREECE

Surrendered guerrillas report that the "free Greek government" will soon hold elections for its General Assembly (see item 5).

INDONESIA

Recent requests for the formation of an armed Chinese security corps within Indonesian territory have been rejected by the Republican Government. Chinese official circles have become increasingly concerned over the heavy casualties suffered by Chinese nationals in Indonesia. Such an attitude tends to direct Chinese sympathy toward the Dutch in UN Security Council discussions.

CHINA

In Kuomintang meetings now being held, National Government leaders have reportedly expressed the determination to reform and rejuvenate both Party and Government and to crush the Chinese Communists by military force. The Government's ability to achieve either objective remains in doubt, although some form of "purge" and reorganization can be expected.

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GENERAL

1. UK opposed to US views on CEEC report--US Ambassador Wiley reports that the UK Ambassador in Lisbon has received two circular telegrams from the UK Foreign Office instructing him to make representations which would counteract US efforts to obtain a revision of the present report of the Committee for European Economic Cooperation (CEEC). According to Wiley, the UK Foreign Office has stated that: (a) any delay of the final report beyond 15 September would endanger all progress made in Paris; and (b) all US views on the substance of the report should be communicated to the committee in Paris and not to the 16 governments concerned.
2. Views of Norway, Netherlands, and Sweden on CEEC--The Deputy Foreign Minister of Norway has informed US Ambassador Bay that the Norwegian delegates to the CEEC have been instructed in accordance with US views on the present draft of the report. Bay adds that the Norwegian Cabinet is fully sympathetic with the broad objectives of the US.

US Embassy The Hague reports that the Netherlands Minister of Economic Affairs is in sympathy with US objectives in regard to European recovery. The Dutch official points out, however, that the US should realize that obtaining the cooperation of the 16 nations in producing the present accomplishments is an important achievement under present political and economic conditions in Europe.

US Minister Dreyfus in Stockholm reports that Swedish sentiment regarding the European recovery program reveals no sense of urgency and tends to emphasize the difficulties involved in implementing any mutual aid program. Leading Swedish bankers, according to Dreyfus, attribute the critical European economic situation to a dollar shortage rather than to lack of production, and this explanation, supported by Communist propaganda, is receiving considerable popular acceptance.

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3. UK to consider delaying troop withdrawal from Greece--In reply to US Ambassador Douglas' representations for the retention of UK troops in Greece (see Daily Summary of 9 September, item 2), Bevin stated that he would: (a) submit the considerations put forward by the US to the Prime Minister and the Defense Committee; and (b) do his best to keep the troops in Greece beyond the "date fixed." Bevin stated that the UK troops could probably not be retained in Greece beyond the end of this year. (The UK had earlier indicated its intention to withdraw the troops during the fall.)
4. Possible Yugoslav bid for SC vacancy--According to US Ambassador Cannon in Belgrade, the composition of the Yugoslav delegation to the General Assembly suggests that the Yugoslav Government may make a bid to replace Poland on the Security Council in 1948. Cannon points out that among the principal delegates there is only one active Communist and that the delegation is "the best Yugoslavia can offer in affability."

(CIG Comment: Gromyko stated on 2 September that the USSR favored the Ukraine as Poland's replacement. In view of almost certain Western opposition to the Ukraine, the USSR may be grooming Yugoslavia as its second choice.)

EUROPE

5. GREECE: "Free government" reported planning to hold elections--US Consul General Salonika has learned from the interrogation of eight surrendered guerrillas that: (a) the guerrillas have been told to pick candidates for the General Assembly of the "free government" prior to the elections to be held during the period of 16-26 September; (b) heavy ordnance, including field artillery pieces, is to be supplied the guerrillas immediately after the elections; and (c) a steady stream of German small arms is reaching the guerrillas from across the Greek border.

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FAR EAST

6. FRENCH INDOCHINA: French offensive indicated--US Consul O'Sullivan at Hanoi reports that: (a) according to all indications a French offensive against the Vietnam Government is scheduled for late September; and (b) French military circles, with "amazing confidence," expect the campaign to be completed in about three months. O'Sullivan states that the emphasis in these operations will be placed as much on killing or capturing Vietnam leaders as on the destruction of Vietnam forces.
7. CHINA: Government reported unwilling to grant Sinkiang autonomy--
US Embassy Nanking reports information [redacted]

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[redacted] that General Chang Chih-chung, Chief of the Generalissimo's Headquarters in northwest China, will probably urge the Chinese National Government to grant immediate autonomy to Sinkiang Province. [redacted] the Nationalist Government will not accept Chang's recommendations but may publicly promise that autonomy will be granted eventually.

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(CIG Comment: Chang, who is a responsible and capable official, would probably recommend immediate autonomy in the conviction that the Government's present military capabilities are inadequate to defend Sinkiang against the new native rebellion which is believed to be imminent in the northwestern part of the Province.)

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THE AMERICAS

8. ARGENTINA: Objectives at UN Assembly--US Ambassador Bruce in Buenos Aires has been informed by the Argentine Delegate to the UN that Argentine interests in the current session of the Assembly will be: (a) to "fight Communism in every way possible"; (b) to favor partition in Palestine; and (c) to advocate revision of the UN Charter to include abolition or at least modification of the veto. The Delegate declared that "we will get rid of Franco" if the anti-Communist members of the UN decide that: (a) the Franco regime is of no value in the fight against Communism; and (b) the Spanish question should not be postponed. He also expressed the view that the Marshall proposals should be extended to the Western Hemisphere since failure to do so would "put Europe ahead of the Americas," which also have disease, malnutrition, and poverty.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Although UK Foreign Minister Bevin has indicated his disagreement with the US proposal to revise the CEEC report, the Foreign Ministers of ten other countries have expressed their fundamental agreement with the US proposal (see item 1).

GREECE

No significant new development.

INDONESIA

While in Washington, Acting Governor General Van Mook indicated that he holds little hope for a UN settlement of the Indonesian situation. In Batavia, the US Consul General anticipates little difficulty in placing observers in order to obtain information on the UN cease-fire order in the shortest possible time.

KOREA

No significant new developments are expected on the Korean problem prior to its presentation before the UN General Assembly some time later this month.

CHINA

No significant new development.

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GENERAL

1. Foreign Ministers' views on revision of CEEC report--US Ambassador Douglas has been told by UK Foreign Minister Bevin that the countries participating in the Committee for European Economic Cooperation (CEEC) have gone as far toward a cooperative effort as possible and that the US proposal for revision of the CEEC report would cause dismay and might "so impair national sovereignty that many countries would rebel."

Full agreement, however, with the US view on the proposed revision of the CEEC report has been expressed to US representatives by the Foreign Ministers of Austria, Belgium, Denmark, Iceland, Italy, Portugal, and Turkey who have indicated that they would institute action to revise the present report.

The Foreign Ministers of the Netherlands, Norway, and Switzerland have indicated general sympathy for the US proposal to revise the report but have given no definite commitments to US representatives.

EUROPE

2. USSR: Accepts 15 September date for deposits--US Embassy Moscow reports that the USSR has agreed to a deposit of ratifications of the Italian and Satellite peace treaties on 15 September.

NEAR EAST-AFRICA

3. IRAN: Position vis-a-vis USSR weakened by Bevin's attitude-- According to US Ambassador Allen, UK Foreign Minister Bevin's recent advice to the Iranian Government not to close the door to further Soviet-Iranian oil negotiations has been interpreted by the Shah and Qavam as an indication that the UK has weakened before Soviet threats against Iran and now wishes Iran to grant the USSR an oil concession (see Daily Summary of 6 September, item 1). The Shah, in informing Allen that Qavam is preparing some sort of oil proposal for the USSR, appeared resigned to the inevitability of such a move in view of Bevin's advice.

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(CIG Comment: Unless the UK alters its present position, Iranian determination to resist Soviet pressure will rapidly dissipate, and the extension of Soviet influence in Iran will be expedited.)

THE AMERICAS

4. DOMINICAN REPUBLIC: Possible landing of US marines--US Charge Burrows in Ciudad Trujillo has indicated that: (a) armed protection of US lives and property would "very probably" be unnecessary in the event of a revolutionary outbreak; (b) such protection should be sent only upon the US Embassy's request; and (c) he has so informed the District Marine Officer in Puerto Rico. (The Commander in Chief of the Atlantic Fleet had previously asked for an estimate of US marine requirements in the event of revolutionary activities.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Ambassador Douglas in London has been instructed to urge UK officials not to oppose the discussion in the CEEC of the economic program of the US-UK German Zone (see item 1).

GREECE

The new amnesty which the Greek Government intends to extend to the guerrillas will probably not be effective because the Communist leaders are expected to demand exorbitant political concessions before issuing a cease-fire order. However, the amnesty will demonstrate the good faith of the government in seeking peace and will place responsibility for continuance of the war squarely on the Communists.

INDONESIA

Following conversations with Department of State officials, the Netherlands Ambassador and Acting Governor General Van Mook have indicated Dutch willingness to abide by Security Council mediation in Indonesia by means of a three-nation commission. Two of the members of this commission, selected by the parties to the dispute, are Australia and Belgium; the third member may be the US or the UK.

KOREA

No significant new development.

CHINA

Chinese Communist military capabilities for offensive action in Manchuria have become strengthened recently (see item 4).

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GENERAL

1. US to urge UK to include bizonal area in CEEC report--The Department of State has instructed US Ambassador Douglas to urge UK officials to agree to a discussion of the German bizonal economic program in the Committee for European Economic Co-operation (CEEC). Douglas is to point out that the failure of the bizonal area to participate in the preparation of the CEEC report would: (a) jeopardize the economic recovery program; and (b) render difficult the position of the US in urging a cooperative approach to the CEEC while the US-UK Zones fail to cooperate in the report.
2. Marshall informs Bevin of US thinking on Middle East--US Ambassador Douglas has been requested to inform Bevin that Secretary Marshall agrees to a joint review of the whole US-UK position in the Middle East by top military and political officials, looking toward an understanding in regard to a common policy. Bevin is to be informed that: (a) "the fundamental cornerstone" of US thinking on the Middle East is the maintenance of the UK's position there; (b) the US counts heavily on continued close US-UK cooperation in the area; and (c) UK troops in Greece symbolize US-UK determination to insure Greece's continued independence, and their withdrawal would be interpreted as an abandonment of joint responsibility. Douglas is to add that the US Joint Chiefs of Staff believe that the withdrawal of UK troops would not only cause a marked deterioration of the US-UK strategic position in the entire Mediterranean area, but might well provoke a critical situation in Greece itself and would leave the US no course of action which could fully offset the adverse effects.

EUROPE

3. ITALY: Commission set up for Franco-Italian customs union--US Embassy Rome reports that documents establishing a mixed commission to study the formation of a Franco-Italian customs union are scheduled to be signed forthwith by representatives of the two nations. The commission plans to hold its first meeting in Rome before 15 September and to present its report by the end of 1947.

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FAR EAST

4. CHINA: Military situation in Manchuria favors Chinese Communists-- US Consul General Mukden believes that Chinese Communist military capabilities in Manchuria are now greater than before the May-June offensive because: (a) the Nationalists have lost seasoned troops and mobility; (b) the recent change in leadership of the Nationalist Manchurian command has created temporary confusion; (c) the Communists have had time to consolidate recent gains and to shorten supply lines; and (d) the Communists can live on the forthcoming domestic grain harvest while Nationalist soldiers from China proper must be fed imported rice. The Consul General believes that the Nationalist potential, although increased by recent arrivals of troops and ammunition, is inadequate for anything more than defensive operations.

(CIG Comment: A new Chinese Communist offensive in Manchuria will probably be launched within the next few weeks.)

THE AMERICAS

5. ARGENTINA: Police accord against Communism recommended-- US Ambassador Bruce has reported that in his view the present moment is "appropriate" for arranging a liaison between US and Argentine police for combatting Communism and has requested information regarding any US-Argentine discussions of this subject at the Rio Conference.

The Department of State in reply to this request has stated that, according to Foreign Minister Bramuglia, Argentina would like to conclude a secret anti-Communist pact with the US. The Department comments that the US, though fully aware of the dangers of Communism, believes that anti-Communist measures can best be adopted by individual countries.

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EUROPEAN RECOVERY

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US representatives have been instructed to inform the sixteen governments participating in the CEEC that the US desires a re-casting of the present draft of the Paris Conference report and a postponement of the present 15 September deadline (see item 1).

GREECE

Guerrilla strength is increasing to such an extent that, unless corrective measures are soon taken, the Greek Army will be unable to assume the offensive. The inability of the Army to control large areas has already resulted in the flight of 150,000 villagers to large towns, thereby increasing unemployment and economic dislocation.

INDONESIA

The Australian and French representatives at Batavia have reported to the Consular Mission that conditions are "quiet" within Republican territory. Meanwhile, Acting Governor General Van Mook is in Washington in order to clarify the Netherlands position and to seek US influence in securing prompt issuance of the Consular report (see item 6).

KOREA

The US Delegation reports that the Joint Commission has been unable to agree on a joint report. Because US efforts to reach a solution of the Korean problem at a higher level have been blocked by the Soviet refusal to participate in four-power conversations, the Joint Commission will probably continue stalemated until the whole Korean problem is brought before the UN General Assembly.

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CHINA

No significant new development.

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GENERAL

1. US requests revision of CEEC report--The Department of State has instructed US representatives to the sixteen governments participating in the Committee for European Economic Cooperation (CEEC) that the US desires: (a) the improvement of the present CEEC draft; and (b) the continuance of the Conference after the issuance of a revised draft in order to develop more concrete proposals "for mutual and self help" among the participating countries. The Department proposes to secure a tentative report by about 21 September which will conform to US major policy lines and will be subject to later revision.
2. US view on allocation of Saar coal to France--The Department of State has informed the French Government that: (a) although the US is willing to discuss the subject of Saar coal at the forthcoming Berlin conference on Ruhr coal problems, it will not support the immediate allocation of Saar coal to France; and (b) if the November meeting of the CFM does not produce an agreement concerning the integration of the Saar into the French economy, the US will support such integration if the French Government will fuse its zone in Germany with US-UK zones.

EUROPE

3. FRANCE: Prestige of Ramadier Government at new low--US Embassy Paris believes that despite the recent vote of confidence, the prestige of the Ramadier Government is now lower than ever before. The Embassy indicates that although the Government will probably continue in office until the October municipal elections, its inability to remedy the present division of the Socialist party makes unlikely its survival much beyond that date. The Embassy reports its view that in case of a complete economic collapse, the chances that the Communists will gain control will be greatly enhanced; but, in the event of continued deterioration, "the most likely solution" will be the return of DeGaulle.

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4. **ITALY:** Government threatened by wheat shortage-- US Ambassador Dunn reports that the Italian Government's decision to restore the pasta ration on 1 November despite inadequate grain imports may have grave political repercussions. The Embassy has been told by a Cabinet member that the USSR may be willing to supply the wheat necessary to meet the ration this winter, provided that Communists and left-wing Socialists are taken into the Government.

FAR EAST

5. **JAPAN:** Soviet reaction to US-sponsored Japanese peace treaty-- US Ambassador Smith in Moscow reports a violent Soviet press reaction to US proposals for a Japanese peace treaty. Smith believes that the Kremlin may be convinced that its control of key areas in East Asia and its "satisfactory" influence in Manchuria will enable the USSR to remain aloof from an Allied peace conference without harming its position in the Far East and will leave the USSR free from obligations in post-treaty Japan.

Smith anticipates that the USSR will base propaganda attacks on the theme of US-dominated action in Japan and will redouble efforts to infiltrate Japan and foment social and political unrest to the maximum.

(CIG Comment: The Soviet press has for some time strongly attacked US-sponsored Japanese peace proposals. Should a peace conference be held without USSR participation, increasingly violent attacks can be expected. The USSR is unlikely to attend the conference on US terms)

6. **INDONESIA:** Purpose of Van Mook's visit to US-- US Embassy The Hague reports that the purpose of Acting Governor General Van Mook's visit to the US is to emphasize that the Dutch cannot remain in Indonesia longer than three to five months under present circumstances, and that Van Mook will therefore seek US influence in expediting a Consular report on the Dutch-Indonesian dispute. The Netherlands Foreign Office has indicated to the Embassy that if the Consular report is unfavorable, the Dutch may feel obliged to withdraw from Indonesia and submit the problem to the UN.

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GENERAL

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1. Bevin appears to favor an Iranian-Soviet oil agreement--US Ambassador Allen in Tehran believes that divergences between the US and the UK policies on the Iranian-Soviet oil question threaten to be serious at this time. Allen states that Foreign Minister Bevin's latest instructions to the British Ambassador indicate that Bevin not only retains his hope that Iran and the USSR will enter into an oil agreement but also that the UK should use its efforts to bring this about.

FAR EAST

2. FRENCH INDOCHINA: French optimistic about military operations-- US Consul Hanoi reports that the French remain "unalterably optimistic" about the prospects of success in widespread military operations (expected at the beginning of the fall dry season). The Consul comments, however, that French military equipment is in very poor condition, and believes that Vietnamese guerrilla activities will continue to disrupt any French operations.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

French anxiety to maintain political stability in order to further the European recovery program has been a prominent factor in enabling Ramadier to win a strongly-contested vote of confidence.

GREECE

A government under the Liberal leader, Sophoulis, has reportedly been formed. Although on the surface the government will be broadly representative, the coalition will actually be an uneasy one, and it is doubtful whether the presence of Liberal elements will at this late date produce any effective change in the policies established by the old Cabinet.

INDONESIA

High level discussions in The Hague on the Indonesian situation are stymied by contrasting views of Dutch officials (see item 3).

KOREA

The USSR has still not replied to the US note of 25 August proposing four-power conversations beginning 8 September in Washington.

CHINA

No significant new development.

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GENERAL

- 1. Australia desires to participate in Korean conversations--**The US Embassy in London reports that the British Foreign Office has not replied to the US proposal for four-power conversations because of difficulties occasioned by Australian demands for participation. The Embassy states that the UK will agree to participate but, in order to placate Australia, will request that an Australian official accompany the UK representative as an observer or adviser.

(CIG Comment: Under the terms of the Moscow Agreement, Australia has no legal claim to participation. However, exclusion from the conversations would produce an adverse Australian reaction which might indirectly result in support of the Soviet position and cause severe damage to present harmonious US-UK-Australian relations in the Pacific.)

EUROPE

2. GREECE: Rumor of all-out attack from north discounted--According to the [redacted]

[redacted] preparations for a bulky and blitz attack along the entire Greek northern frontier prior to 16 September.

the attack will be launched by guerrillas, assisted by the armies of northern neighbors, and that Soviet troops will participate only in the event of foreign interference in defending Greece.

[redacted] believes that eastern Turkey is to be attacked. [redacted] comments that an attack on Greece is unlikely at this time, and that the report may be a "plant" in the current war of nerves.

(CIG Comment: No tangible evidence which substantiates this rumor has been received to date. While an increase in guerrilla activity this fall is highly probable (see Daily Summary of 2 September, item 6), CIG considers direct participation by the Albanian, Yugoslav, and Bulgarian armies unlikely. Such action would obviously have far-reaching international repercussions and might even involve the USSR in a world war for which it is unprepared. The likelihood of direct participation by Soviet troops in Greece or Turkey at this time is so remote that it need not seriously be considered.)

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3. INDONESIA: Dutch high-level talks blocked by disagreement--US Ambassador Baruch The Hague reports that Dutch high-level talks on the Indonesian situation, following the arrival of Acting Governor General Van Mook on 2 September, have become a "tussle" between Van Mook who is adamantly for "decisive action to end clashes with irresponsible Republican troops" and Van Royen, Deputy UN General Assembly delegate, who is apprehensive of possible Security Council economic sanctions should the SC resolutions not be respected.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Acting Secretary Lovett's statement concerning the necessity for immediate action in relieving the European economic crisis has greatly encouraged the leaders of the Committee for European Economic Cooperation in Paris.

GREECE

King Paul and Greek political leaders are engaged in extensive conversations with Ambassador MacVeagh and Loy Henderson in an effort to form a new government which will meet with general approval in both Greece and the US.

INDONESIA

Consular officials representing Security Council powers in Batavia have met in accordance with the Security Council's request and have decided to obtain the aid of military officers of the SC powers in observing the implementation of the cease-fire order in troubled areas of Java and Sumatra.

KOREA

The US Delegation to the Joint Commission has rejected the latest Soviet counter-proposal for the establishment of an independent Korean government on the grounds that such action would violate the Moscow Agreement and would result in the establishment of Korea as another Soviet Satellite.

CHINA

Although Wedemeyer's departing statement continues to be regarded in China as a major humiliation and is receiving bitter criticism, the immediate effect is believed to be beneficial in that it has spurred efforts for reforms (see item 4).

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~~CONFIDENTIAL~~~~TOP SECRET~~**GENERAL**

1. Conflicting reports on Canberra Conference--Australian Minister for External Affairs Evatt has stated in a memorandum for Secretary Marshall concerning the British Commonwealth Conference at Canberra on the Japanese peace settlement that: (a) the broad result of the Conference was a recognition of US leadership in the Pacific area and a confirmation of General MacArthur's initiative in urging an early settlement with Japan; (b) agreement was reached for a two-thirds majority voting procedure with denial of any veto right; and (c) the Conference was an outstanding success in furthering US-British Commonwealth relationships.

US Naval Attaché Melbourne states in his report on the Conference, however, that little was achieved at the Conference, that Evatt was rebuffed by other delegates in his attempts to nominate Australia as British Commonwealth spokesman at the Japanese Peace Conference, and that delegates from Canada and New Zealand refused to commit their Governments to any Australian proposals on the grounds that the Canberra talks were exploratory only.

2. Canadian support for anti-Soviet action in UN--US Ambassador Atherton in Ottawa has been told by a high Canadian official that Canada would: (a) support in the UN General Assembly any reasonable initiative on the Greek problem that would "put the Russians back on their heels"; and (b) be prepared to contribute troops in any "collective" action relating to a Greek border patrol.
3. US suggests 15 September date for treaty deposit--The Department of State has proposed to the governments of the UK, the USSR, and France that ratifications be deposited on 15 September in Paris for the Italian peace treaty and in Moscow for the Satellite treaties, if that date is agreeable to the three governments.

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4. CHINA: Wedemeyer statement spurs efforts for reform--US Consulate General Shanghai reports the view that although the general Chinese reaction to the Wedemeyer statement has been a rankling sense of humiliation, the general effect of the statement has been to shake lethargy and to spur efforts for reforms. The Consulate also reports a well-informed Chinese view that Chiang Kai-shek, despite his bitter reaction to the Wedemeyer statement, will probably go to considerable lengths to follow Wedemeyer's advice and will take drastic action provided only that it does not include accepting American "supervision."

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

US officials in Paris recommend that the US continue informal talks with the French concerning the establishment in the German peace settlement of some device for international control of Ruhr production.

GREECE

Reports indicate that the Communists in Italy and France, along with the governments of the Satellite States, are prepared to give official support to the "Free Greek Government" whenever it can be established on Greek soil by guerrilla action.

INDONESIA

The commission of consuls in Batavia, headed by the US Consul General, has met for informal discussions prior to the submission of the joint report on the Indonesian situation requested by the UN Security Council.

KOREA

The Department of State does not expect the USSR to participate in the four-power conversations on Korea. In the meantime, the Soviet Delegation to the Joint Commission has apparently been ordered to remain in Seoul (see item 4).

CHINA

Another open rebellion against the Chinese National Government by the Ili group in Sinkiang Province, with possible Soviet support, is considered likely (see item 5).

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GENERAL

1. Peron offers cooperation against Communism--US Ambassador
Bruce reports that he has been told by President Peron that Argentina is willing to "go all the way" in meeting President Truman's views on Communism and desires to make an agreement with the US (see Daily Summary of 11 August, item 4). Ambassador Bruce adds that Peron has expressed regret that he had been unable to meet President Truman to discuss the matter with him.
2. Evatt's intentions at UN General Assembly--Australian Minister for Foreign Affairs Evatt has indicated to US Ambassador Butler that he intends "to go after the Russians" in the forthcoming UN General Assembly meeting. Evatt also made it clear to Butler that he desires the presidency of the General Assembly.
3. Cardinal Spellman possible Papal Secretary of State--According
Cardinal Spellman has been
designated as the next Papal Secretary of State.

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4. KOREA: USSR unlikely to accept US proposals--The Department of State has informed the US Political Adviser in Seoul that it does not expect the USSR to take part in the four-power conversations suggested recently to Soviet Foreign Minister Molotov. The Department states that in the event of a Soviet refusal it will present the whole Korean problem to the next session of the UN General Assembly.

Soviet Delegation to remain in Seoul--Political Adviser Jacobs reports that the Soviet Delegation to the Joint Commission has abruptly changed its plans for departure and now is apparently prepared to stay in Seoul until October. Jacobs believes that the Delegation has been told to remain because of the recent arrests of South Korean leftists which damaged Soviet political plans.

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5. CHINA: Imminence of Ili rebellion in Sinkiang--The US Consul in Sinkiang Province has been reliably informed that the last responsible representative of the Ili group (which dominates north-western Sinkiang) has left Tihwa, the provincial capital.

(CIG Comment: This development increases the probability of another Ili rebellion against the Chinese National Government, similar to the rebellions of 1944 and 1946, and may also foreshadow a USSR-sponsored autonomous authority in Sinkiang.)

THE AMERICAS

6. ECUADOR: Revolution continues--US Embassy Quito reports that: (a) Carlos Mancheno has resigned in favor of a three-man civilian junta; (b) Mancheno is leading the defense of Quito against the insurgent forces that are converging on it from the north and south; and (c) the diplomatic corps in Quito proposes to mediate the conflict.
7. BRAZIL: Requests US help to meet wheat shortage--US Ambassador Pawley reports that, according to President Dutra and other high Brazilian officials, Argentina's failure to fill its wheat shipment quotas, under its reciprocal trade agreement with Brazil, will produce a bread shortage this fall that could strengthen the position of the Communists and endanger the Dutra Government. Pawley adds that Dutra: (a) desires US help either in the form of wheat shipments or in representations to the International Emergency Food Council (IEFC); and (b) indicates Brazil's willingness to rejoin IEFC immediately.

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CRITICAL SITUATIONS**EUROPEAN RECOVERY**

US officials in Paris believe that the expectation of a deficit after 1952 in Western Europe is based upon the continuation of a higher standard of living than European production will support (see item 3).

GREECE

The Chief of Staff of the Greek Army has expressed his fear to the King that, unless the political crisis is resolved, there will be serious disturbances within the Army. Active participation in political affairs by Army leaders is believed to be foreshadowed by the Chief of Staff's warning. Meanwhile, the Communists are reportedly preparing heavy attacks for October (see item 6).

INDONESIA

The Dutch Government has nominated Belgium to the three-nation "good offices" commission proposed by the Security Council to help solve the Dutch-Indonesian dispute. The Republic is expected to nominate Australia to this commission. The third member expected to be nominated is the US.

KOREA

No significant new development.

CHINA

The Chinese National Government appears unduly optimistic about the military situation in Shantung Province, currently the most active area of conflict in North China (see item 7).

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GENERAL

1. Bevin reserves "definite answer" on UK troops in Greece--Bevin has told US Ambassador Douglas that three considerations make the UK Government most anxious to withdraw British troops from Greece: (a) the US was given notice, more than a year ago, that the UK considers the purpose of the troops to have been accomplished; (b) the UK Government is under great pressure, which can no longer be resisted, from within the Labor Party to withdraw the troops; and (c) most importantly, US policy in the Middle East is unknown to the UK Government.

In reply to Douglas' statement that British troops in Greece are symbolic of US-UK joint responsibility, Bevin stated that his colleagues are very anxious to withdraw the troops but that he "would not now give a definite answer." As a "purely personal" suggestion, Bevin recommended that the US and UK jointly review the whole position in the Middle East in order to arrive at a "gentleman's understanding" in regard to a common policy and joint responsibility throughout the area, with "the British acting as the front and the US supplying the moral support."

(CIG Comment: The recent intransigence of the UK Government regarding the withdrawal of its troops in Greece appears to be a bargaining position taken to obtain US support for certain UK aims in the Middle East.)

2. Early establishment of Greek puppet government foreseen--US Embassy Moscow expects the USSR to set up and recognize a Greek puppet government prior to the 16 September meeting of the UN General Assembly. The Embassy believes that such a development is foreshadowed by the hasty Soviet action in completing ratification of the peace treaties, and considers that an international brigade to support such a puppet government, if not in actual existence, is at least in an advanced stage of organization.

The Embassy's opinion is based on the following considerations: (a) recent Soviet propaganda is depicting Greek internal strife as a major civil war (see Weekly Summary of 29 August, page 9); (b) deposit of the peace treaty ratifications before 11 September, as

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recently proposed by the USSR, would free the Hungarian, Rumanian, and Bulgarian Governments of present restrictions on their sovereignty and enable them, together with the USSR and its other Satellites, to recognize a "free" Greek government; (c) UN Delegate Gromyko could then sponsor the new Greek "government" before the General Assembly; (d) after the establishment of a Greek puppet government, an international brigade could be openly supported as a group of "freedom-loving volunteers" and would facilitate Soviet control during the period of conflict.

(CIG Comment: CIG concurs in the Embassy's views regarding an international brigade and in the Embassy's belief that the USSR may recognize a new Greek government prior to the meeting of the General Assembly; see Weekly Summary of 22 August, page 6.)

3. CEEC Chairman's views on European deficit after 1952--Sir Oliver Franks, Chairman of the Committee for European Economic Co-operation (CEEC), has told Under Secretary Clayton that Western Europe can be self-sustaining by 1952 only if: (a) currencies of the area are made completely convertible so that export receipts from one part of the world can be transferred to other areas to meet dollar needs; (b) markets for export surpluses are available; and (c) a readjustment of trade conditions is arranged to correct the disparity between the prices of imported raw materials and the prices of exports. Clayton believes that Franks' expectation of deficit economy in Western Europe after 1952 is based upon a higher standard of living than Europe's productivity will support.

EUROPE

4. USSR: Embassy suggests US stop wheat for Eastern Europe--US Embassy Moscow suggests, in order to forestall an anticipated Soviet offer of considerable wheat to France prior to the French municipal elections, that: (a) the US cancel its wheat allocations to Eastern Europe and divert the shipments to France; and (b) the extent of US shipments to France be publicized in every possible way.

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(CIG Comment: Numerous reports indicate a successful Soviet harvest, and CIG believes it probable that the Kremlin will use surplus grain in a political maneuver in France.)

5. RUMANIA: Possible change in Government--Acting US Political Representative Melbourne has been informed by a source who "enjoys the confidence of leading Communists" that the Communist inner circle is considering the appointment of Gheorghe Dej, Communist Minister of Economy, to replace Premier Groza. Source states that Dej is being considered because a strong figure with a direct line to the Kremlin would help Communist efforts to resist Western pressure for carrying out peace treaty terms. Melbourne comments that such a step would be consistent with recent Communist consolidations in both political and economic spheres.

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6. GREECE: Heavy guerrilla offensives planned for October-- [redacted] reports from Athens that at recent meetings of both Satellite and Greek members of the Communist Party, the following points were presented: (a) with the world dividing into armed camps of the East and the West, it is "now or never" for the Communist Party in Greece; (b) although only small accomplishments can be expected from the guerrillas at the moment, in October "new and heavier" weapons will be available which will permit the seizure of "capitals and small cities"; and (c) plans are being considered for the apprehension of right-wing personalities, including British and American, who can be "traded" for prominent left-wingers held by the Government. [redacted] the tenor of the meetings indicated that the new Balkan Council would take over complete control of the Greek Communist effort.

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FAR EAST

7. CHINA: Chinese Communists hold initiative in north China--According to US Embassy Nanking, the Chinese National Government is unjustifiably optimistic about the military situation in Shantung Province.

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The Embassy states that although some local Nationalist victories have been scored, the Chinese Communists have maintained the military initiative and appear to be preparing for new offensive operations to be coordinated with the anticipated Communist offensive in Manchuria. The Embassy adds that the three Chinese Communist commanders in the Shantung-Honan area represent "the best Communist strategic and tactical talent in north China."

THE AMERICAS

8. DOMINICAN REPUBLIC: Government requests data on "invasion"--
The Dominican Government has asked the Foreign Ministers of the American Republics to furnish information concerning the anti-Trujillo revolutionaries allegedly assembling in Cuba. The Government further insists that Dominican charges about an "invasion force" can be "directly and immediately" verified and takes exception to the "evasive" attitude of the Cuban Government.

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